

**REPORT ON EXAMINATION**  
**OF THE**  
**HORIZON HEALTHCARE INSURANCE**  
**COMPANY OF DELAWARE**  
**AS OF**  
**DECEMBER 31, 2003**

# State of Delaware



## Department of Insurance

Dover, Delaware



I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of December 31, 2003 of the

### **HORIZON HEALTHCARE INSURANCE COMPANY OF DELAWARE**

is a true and correct copy of the document filed with this Department.

ATTEST BY: *Kenneth L. Miller*

DATE: 21<sup>ST</sup> JUNE 2005



In Witness Whereof, I HAVE HEREUNTO SET MY HAND  
AND AFFIXED THE OFFICIAL SEAL OF THIS  
DEPARTMENT AT THE CITY OF DOVER, THIS  
21<sup>ST</sup> DAY OF JUNE 2005.

*Matthew Denn*

*Insurance Commissioner*


*Deputy Insurance Commissioner*

**REPORT ON EXAMINATION**  
**OF THE**  
**HORIZON HEALTHCARE OF DELAWARE, INC.**  
**AS OF**  
**December 31, 2003**

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

A handwritten signature in black ink, appearing to read "Matthew Denn", written over a horizontal line.

MATTHEW DENN  
INSURANCE COMMISSIONER

DATED this 21<sup>ST</sup> day of JUNE, 2005.

**TABLE OF CONTENTS**

	Page
SALUTATION	1
SCOPE OF EXAMINATION	1
HISTORY	2
HOLDING COMPANY SYSTEM	2
CORPORATE RECORDS	3
MANAGEMENT AND CONTROL	4
GROWTH OF COMPANY	4
TERRITORY AND PLAN OF OPERATION	4
FINANCIAL STATEMENTS	5
NOTES TO THE FINANCIAL STATEMENTS	7
STATUS OF PREVIOUS EXAMINATION RECOMMENDATIONS	7
RECOMMENDATIONS	8
SUMMARY COMMENTS	8
CONCLUSION	9

Horizon Healthcare Insurance  
Company of Delaware Inc.

March 9, 2005

Honorable Mathew Denn  
Insurance Commissioner  
State of Delaware  
841 Silver Lake Boulevard  
Dover, Delaware 19901

Dear Commissioner:

In compliance with instructions contained in Certificate of Authority No. 4.029,  
an examination has been made of the affairs, financial condition and management of the

**HORIZON HEALTHCARE INSURANCE COMPANY OF DELAWARE INC.**

hereinafter referred to as "HHICD" or "Company", incorporated under the laws of the  
State of Delaware.

The report of such examination is respectfully submitted herewith.

**SCOPE OF EXAMINATION**

The last examination was an organizational examination conducted as of  
September 30, 1998. This examination covers the subsequent period to December 31,  
2003, and consisted of a general survey of the Company's business policies and practices;  
management, any corporate matters incident thereto; a verification and evaluation of  
assets and a determination of liabilities. Transactions subsequent to the latter date were  
reviewed where deemed necessary.

The format of this report is designed to explain the procedures employed on  
examination and the text will explain changes wherever made. If necessary, comments  
and recommendations have been made in those areas in need of correction or

Horizon Healthcare Insurance  
Company of Delaware Inc.

improvement. In such cases, these matters were thoroughly discussed with responsible officials during the course of the examination.

The general procedures of the examination followed the rules established by the National Association of Insurance Commissioners' (NAIC) Committee on Financial Condition Examiners Handbook, and generally accepted statutory insurance examination standards.

### **HISTORY**

The Company was incorporated on February 4, 1998 as the Medigroup Insurance Company (DE). The present title was adopted through an amendment to the Certificate of Incorporation effective July 20, 1998.

Since inception, the Company's ultimate parent has been Horizon Healthcare Services Inc., which does business as Horizon Blue Cross Blue Shield of New Jersey.

The Company has never written any business.

### **HOLDING COMPANY SYSTEM**

At December 31, 2003, the Company was a wholly owned subsidiary of Horizon Healthcare Dental Services Inc. Through another intermediate entity, Enterprise Holding Company, Inc., the Company's ultimate parent is Horizon Healthcare Services Inc., which does business as Horizon Blue Cross Blue Shield of New Jersey. The ultimate parent reported the following financial information at December 31, 2003:

Assets	\$1,840,472,000
Surplus	881,752,000
Premium Revenue (2003)	3,149,412,000
Net Income	142,168,000

Through a Management Services Agreement, the ultimate parent will provide, either directly or through its subsidiaries, all services necessary to operate the Company.

The examination reviewed the Insurance Holding Company System Annual Registration Statement filed with the Insurance Department on May 28, 2004. The statement was filed on behalf of the Company's affiliate, Horizon Healthcare of Delaware. HHICD is a Delaware-domiciled insurer and yet isn't included in the Registration Statement.

**It is recommended the Company have Insurance Holding Company System Registration Statements filed on its behalf in accordance with Section 5004 of the Delaware Insurance Code.**

### **CORPORATE RECORDS**

The minutes, as provided by the Company, were reviewed for the period under examination. The following exceptions were noted:

- The Company's Board of Directors does not approve investment transactions as required by Section 1304 of the Delaware Insurance Code.

**It is recommended the Company's Board of Directors comply with Section 1304 of the Insurance Code and approve investment transactions.**

- The Company does not notify the Delaware Insurance Department of changes in officers and directors as required by Section 4919 of the Insurance Code.

**It is recommended the Company comply with Section 4919 of the Insurance Code and notify the Department of changes in officers and directors.**

### **MANAGEMENT AND CONTROL**

On the 2003 Annual Statement, HHICD reported the following directors and officers:

#### **Directors**

William Marino  
Christy Bell  
Robert Marino

#### **Officers**

Robert Marino	President
Robert Meehan	Vice President
John Campbell	Secretary
William Frantel	Treasurer

### **GROWTH OF COMPANY**

The following information was obtained from the Company's filed Annual Statements and covers the five preceding years:

<u>Year</u>	<u>Net Admitted Assets</u>	<u>Capital and Surplus</u>	<u>Net Premiums Written</u>	<u>Net Income</u>
1999	\$ 960,624	\$ 918,130	\$	\$(19,778)
2000	955,298	945,876		27,746
2001	937,602	936,148		(9,728)
2002	933,459	925,573		(10,575)
2003	915,431	906,171		(19,402)

The Company is inactive. All income is derived from investments.

### **TERRITORY AND PLAN OF OPERATIONS**

The Company's Certificate of Authority from the Delaware Insurance Department permits the writing of health insurance.

The Company has never written any business. The original plan was for HHICD to act in tandem with an affiliated health maintenance organization, Horizon Healthcare



Horizon Healthcare Insurance  
Company of Delaware Inc.

of Delaware (HHD). The Company would write products that HHD could not underwrite under its HMO Certificate of Authority. In 2002, ownership of the Company was transferred to Horizon Healthcare Dental Services and plans were made to have the Company underwrite dental insurance. However, those plans never came to fruition. Management has indicated in the minutes of the Company that there are no plans to activate the Company at the present time.

### **FINANCIAL STATEMENTS**

The Company's financial position on December 31, 2003 and the results of operations for 2003 are presented in the following statements:

#### **ASSETS**

	<u>Assets</u>	Non-admitted <u>Assets</u>	Net Admitted <u>Assets</u>	<u>Notes</u>
Cash and short-term investments	\$910,155		\$910,155	1
Investment income due and accrued	690		690	
Current federal income tax recoverable	<u>4,586</u>		<u>4,586</u>	
TOTALS	<u>\$915,431</u>		<u>\$915,431</u>	

### **LIABILITIES, SURPLUS AND OTHER FUNDS**

Notes

Payable to parents, subsidiaries and affiliates	\$9,260
Total liabilities	<u>\$9,260</u>
Common capital stock	\$300,000
Gross paid in and contributed surplus	700,000
Unassigned funds (surplus)	<u>(93,829)</u>
Capital and Surplus	<u>\$906,171</u>
TOTAL	<u>\$915,431</u>

### **SUMMARY OF OPERATIONS**

Premium and annuity considerations	0
Net investment income	<u>\$9,825</u>
Total	<u>\$9,825</u>
General insurance expenses	<u>33,933</u>
Total	<u>\$33,933</u>
Net gain from operations	\$(24,108)
Federal income taxes incurred	<u>( 4,706)</u>
NET INCOME	<u>\$(19,402)</u>

### **CAPITAL AND SURPLUS ACCOUNT**

Capital and Surplus, December 31, 2002	\$925,573
Net Income	<u>\$(19,402)</u>
Change in Capital and Surplus for the year	<u>\$(19,402)</u>
Capital and Surplus, December 31, 2003	<u>\$906,171</u>

## **SCHEDULE OF EXAMINATION ADJUSTMENTS**

The examination will propose no financial adjustments.

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Note #1 Cash and Short-Term Investments.**

The Company reported the amount of \$910,155 for the above captioned asset on the 2003 Annual Statement. For mutual fund assets of \$809,967, the Company supplied a custodian statement from TrearyPoint.com. When requesting a copy of the custodian agreement, the examination was provided with an unsigned “trading agreement” that disclosed the following:

TrearyPoint.com is an on-line trading website managed by SEI Investments Distribution Company. An affiliated entity, SEI Private Trust Company provides record-keeping and custodian services.

As per the NAIC Financial Conditioners Handbook, the examination can only accept a custodian statement from a regulated bank or trust company. In addition, there must be in place an executed custodian agreement that contains the safeguard language recommended by the NAIC, and the custodian must provide a Report on Internal Controls.

**It is recommended the Company engage a custodian that is a regulated bank or trust company. In addition, the Company should obtain a custodian agreement that contains the NAIC recommended safeguard language and the custodian should provide a Report on Internal Controls.**

## **STATUS OF PREVIOUS EXAMINATION RECOMMENDATIONS**

The previous organizational examination conducted as of September 30, 1998 made no recommendations.

### **RECOMMENDATIONS**

The Company's attention is directed to the following:

It is recommended the Company have Insurance Holding Company System Registration Statements filed on its behalf in accordance with Section 5004 of the Delaware Insurance Code. (See Holding Company System, page 2)

It is recommended the Company comply with Section 1304 of the Delaware Insurance Code and have the Board of Directors approve investment transactions. (See Corporate Records, page 3)

It is recommended the Company comply with Section 4919 of the Insurance Code and notify the Department of changes in officers and directors. (See Corporate Records, page 3)

It is recommended the Company engage a custodian that is a regulated bank or trust company. In addition, the Company should obtain a custodian agreement that contains the NAIC recommended safeguard language and the custodian should provide a Report on Internal Controls. (See Notes to the Financial Statements, page 7)

### **SUMMARY COMMENTS**

The following items of significance were noted during the examination:

HHICD has never commenced operations and management of Horizon Blue Cross Blue Shield of New Jersey has indicated there are no plans to activate the Company.

HHICD is licensed only in the State of Delaware.

**CONCLUSION**

The following schedule shows the results of this examination and the results of the prior examination with changes between the examination periods:

<u>Description</u>	<u>Current Examination</u>	<u>9/30/1998 Examination</u>	<u>Changes Increases (Decreases)</u>
Assets	\$915,431	\$1,100,000	(\$184,569)
Liabilities	9,260	10,000	(740)
Capital and Surplus	906,171	1,090,000	(183,829)

The examination was conducted by the undersigned.

Respectfully submitted,



---

James J. Blair Jr., CPA, CFE  
Supervisor  
Insurance Department  
State of Delaware